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Security: Normal

MEMORANDUM TO THE MINISTER

FOR INFORMATION

SUBJECT: Update on ventilator procurement in response to COVID-19

SUMMARY

This memorandum is to inform you about the measures that Public Services and Procurement Canada has had to exercise to quickly increase domestic capacity to manufacture ventilators.

In response to COVID-19, Public Services and Procurement Canada has awarded nine contracts for 32,070 ventilators for a total value of \$870.3 million. Six contracts have been for “off-the shelf” ventilators, with the remaining contracts being awarded to establish domestic capacity to manufacture ventilators. The Department is also negotiating terms for two contracts for an additional 10,550 ventilators.

ISSUE

National and international demand for ventilators is high, with suppliers experiencing pressure on their supply chain and their production capacity to meet demand. As a result, delivery of the ventilators has been delayed.

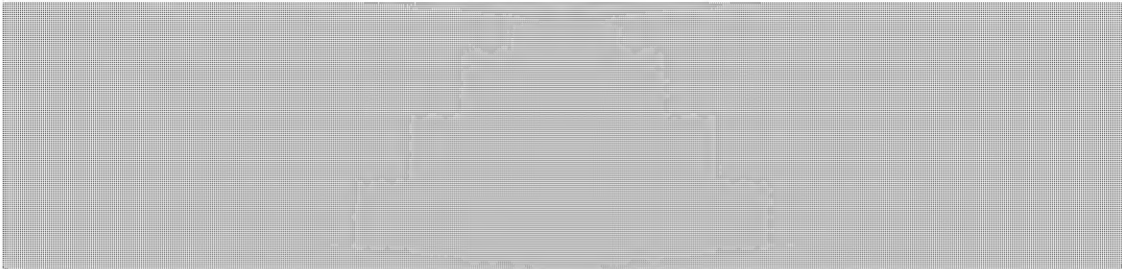
In response to this challenge, the Government of Canada shifted its effort to stand up domestic capacity quickly. In doing so, it agreed to share in the potential risks, specifically providing advance payments and including indemnification provisions.

BACKGROUND


The Government of Canada is working to establish a sufficient supply of ventilators for the Public Health Agency of Canada’s National Emergency Strategic Stockpile (NESS). Procuring ventilators to combat COVID-19 from international companies is extremely challenging at this time. This is due to unprecedented national and international competition for the same limited supply, the imposition of export restrictions for these items and the high level of uncertainty in delivery dates.


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The Government of Canada has secured 1,050 ventilators through five contracts valued at \$40.1 million with the Canadian distributors or subsidiaries of Draeger, Medtronic, Zoll, Hamilton and General Electric, with delivery dates still being confirmed.





To ensure health care workers and front-line staff have the equipment needed to combat COVID-19, the Government of Canada has moved to establish domestic capacity to produce ventilators. A \$140.9 million contract was awarded to Thornhill Medical for 1,020 of its MOVES SLC ventilators, which are manufactured in Canada by Linamar Corporation. This represents a significant increase in Thornhill/Linamar's production capacity, since under normal circumstances they manufactured five per month.

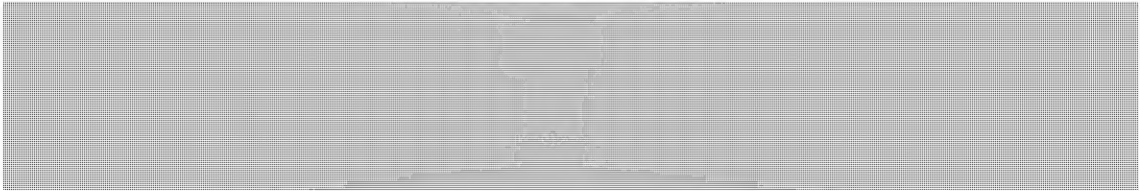
Following a process led by Innovation, Science and Economic Development Canada to identify promising innovations, Public Services and Procurement Canada has awarded three contracts valued at \$689.3 million for 10,000 ventilators each to Canadian Emergency Ventilators Inc., FTI Professional Grade, and CAE Inc. 



These ventilators are new to market, and the contract is conditional on securing regulatory approval from Health Canada. Production is expected to begin in May 2020 and finish in September 2020.

Negotiations have begun with Vexos (formerly EPM Global Services Inc.) to manufacture 10,000 ventilators of a new open-source design. 

 Vexos is working with Health Canada to secure regulatory approval in parallel with contract negotiations.



Domestic suppliers have been reluctant to provide consumables as part of their contracts. Consumables, if manufactured, would require separate approval under Health Canada's interim order. Domestic suppliers have suggested consumables be sourced separately. This will create an added responsibility on the Government of Canada to procure consumables for the NESS while ensuring there remains sufficient supply for use by front-line healthcare workers.

CONSIDERATIONS

Various procurement measures were agreed upon in the negotiations with domestic suppliers given the need to prioritize speed and the risk being taken by industry to meet urgent requirements. [REDACTED]

1. Indemnification

Given the intended use of the ventilators in the COVID-19 response and the Government of Canada's request for rapid development and production, [REDACTED]


It is important to note that the United States government is providing liability immunity to "covered persons" with respect to COVID-19, through a declaration under its *Public Readiness and Emergency Preparedness Act*. Covered persons, including manufacturers, distributors, the United States government and the end users will benefit from this liability immunity for 12 months following first either the final date that the declaration is in effect or October 1, 2024. [REDACTED]

2. Advance Payments


To support domestic suppliers in finalizing agreements with their supply chain, the Government of Canada has provided advance payments of varying amounts. Advance payments were used to privilege speed in establishing a supply chain and manufacturing capacity. Measures were also taken to reward and incentivize early delivery as well as withhold/decline payment for late production.

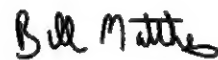
3. Right of First Refusal

As part of the work to establish domestic capacity, the Government of Canada included contractual conditions so that it has the first option to buy available supplies during existing crises and avoid shortfalls in the future.



NEXT STEPS

Public Services and Procurement Canada continues to work with suppliers to secure delivery through the contract administration process and will provide regular updates on progress. Negotiations will continue, with the support of the Public Health Agency of Canada, with  Vexos. The Department will work with partners to secure consumables for the NESS.



Bill Matthews
Deputy Minister